DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

POSTAL RATE & FEE CHANGES, 1997

Docket No. R97-1

RESPONSES OF TIME WARNER INC.
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE
TO WITNESS HALSTEIN STRALBERG (USPS/TW-T1-1-14)
(January 26, 1998)

Time Warner Inc. (Time Warner) hereby provides the responses of witness Halstein Stralberg (TW-T-1) to the following interrogatories of the United States Postal Service: USPS/TW-T1-1-14. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

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RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF UNITED STATES POSTAL SERVICE

USPS/TW-T1-1. Please explain how you purport to produce a more accurate distribution of volume variable costs in, for example, the BCS cost pool, by employing IOCS tally information associated with non-BCS mail processing operations, including non-letter operations.

USPS/TW-T1-1. I believe it is fallacious to think that mixed mail and not handling mail processing costs can be accurately distributed simply by isolating them in many individual cost pools, while ignoring all interconnections between costs incurred at different pools. The reasons I reached this conclusion are described in my testimony. Some of the most important reasons are summarized below. Please see also my answers to various other questions in this set of interrogatories, particularly my answers to USPS/TW-T1-2.

Besides operations dedicated to particular methods of sorting mail pieces, such as the BCS pool you refer to, mail processing facilities perform many "allied" activities, mostly at platforms and opening/pouching units, that are necessary support activities for the piece distribution functions. As witness Bradley concludes: "Allied activities exist to support the direct piece sorting of mail and it is in this sense that they are 'allied' with the direct activities". Bradley in fact uses volume measures at direct piece sorting activities also as "cost drivers" for his analysis of the volume variability of "allied" cost pools. USPS-T-14 at 18-19.

These allied cost pools account for a very major portion of all mixed mail and not handling costs. Mixed mail is mostly handled in the allied cost pools. Furthermore, besides the not handling functions that naturally belong in the allied cost pools, extra not handling costs are added because: (1) employees arriving at work or returning from lunch often clock into an opening unit to assure that they will get paid while waiting for specific assignments; and (2) since productivity generally is monitored at piece sorting operations but not at allied operations, a strong incentive exists for managers and supervisors to have employees momentarily not needed elsewhere clock into an allied cost pool. While allied operations generally have a low level of automation compared with the highly sophisticated automated letter sorting operations, they account for most of the sharp increase in not handling costs that has occurred since the start of letter mail automation.

In view of the above, an important step in the quest for more accurate mail processing cost distribution should be to closely analyze the relationship between costs at the various piece sorting operations and at the allied labor operations. Little appears to be known, for example, regarding which portion of the mixed mail and not handling costs at a given allied operation (e.g. preferential opening units) are related to each of the various piece sorting operations served by the allied operation.

These are not easy questions, but it is time the Postal Service at least starts to address them in earnest. The main problem with Degen's approach is that he simply ignores these issues completely. Instead of addressing seriously the cost relationships described above, Degen simply distributes the large mixed mail and not handling costs at allied operations based only on the relatively few direct costs at those operations, while ignoring all connections to the direct costs at the piece sorting operations served by the allied operations.

For this reason I concluded that, lacking more helpful information about the true relationship between allied and the various direct operations, and about the true reasons for the sharply increased not handling costs, it is after all better to use an approach that cuts across the cost pools and uses all direct costs to distribute all mixed and not handling costs (within CAG and basic function), rather than the pool by pool approach whose effect is to distribute most of the mixed and not handling costs upon only a small part of the direct costs, and to ignore all cross-pool cost relationships.

If it were only a matter of distributing mixed mail and not handling costs at letter and flat piece sorting operations, then maybe it would be acceptable to treat operations such as BCS, OCR, LSM, FSM etc. as completely separate entities. But it is the presence of the very large mixed and not handling costs at allied operations that themselves have relatively few direct costs and whose precise relationship to the piece sorting operations is poorly understood, that causes the major distortion in Degen's approach. In fact, as pointed out in my testimony, the effect of his approach is a strong bias leading to exaggerated costs being attributed to the least automated and the most presorted mail, whose time in postal facilities is spent mostly in the allied labor areas.

The main reason why the least automated and the most presorted mail is inevitably victimized by the pool-by-pool approach is as follows. While allied operations mostly serve letter and flat piece sorting operations, some mail is handled only at the allied operations. Parcels are often handled individually at platforms and opening units. IPP's are sorted, along with bundles of letters and flats, at opening and pouching units. And presorted bundles, sacks and trays of letters and flats, which give rise to direct IOCS tallies because they have identical mail pieces, are often handled only at the allied operations, thus bypassing piece sorting in many facilities. These types of mail give rise to a large portion of the direct costs incurred at allied operations. Under Degen's approach they are therefore also held responsible for the large mixed mail and not handling costs at allied operations, which exist to support piece sorting operations. While bypassing piece sorting, due to preparation by mailers, the highly presorted mail is nevertheless forced to absorb some of the allied mixed and not handling costs related to piece sorting operations.

Another separate reason the pool-by-pool approach will not work is that employees are not always clocked into the MODS operations where they actually are working. For this reason, there are no "pure" cost pools in Degen's data. Even the BCS and OCR

pools include tallies of employees handling flats or parcels. In fact, every MODS cost pool except the Mailgram pool has tallies of employees handling letters as well as tallies of employees handling flats. Most of them also have tallies of employees handling parcels and IPP's. Consequently, it is not even possible to determine the true costs incurred in BCS sorting, OCR sorting, etc. based on Degen's data, much less to distribute those costs to subclasses.

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USPS/TW-T1-2. Please refer to program ALB105C5, USPS-LR-H-21.

(a) Please confirm that the shape-related mixed mail codes (5610, 5620, 5700) are assigned based on the mail processing operation recorded in IOCS question 19. If you do not confirm, please explain.

(b) Please confirm that witness Degen's distribution cost pools (BCS, LSM, Manual Flats, etc.) are MODS-based analogues to IOCS question 19 operations. If you do not confirm, please explain.

(c) Please confirm that the assignment of the shape-related mixed mail codes in program ALB105C5 does not take into account whether the mail processing operation is a manual, mechanized, or automated operation. If you do not confirm, please explain.

(d) Is it your testimony that you should obtain more accurate mixed-mail distributions by employing mixed-mail activity codes that ignore whether the tally was taken in a manual, mechanized, or automated operation? Please explain fully.

USPS/TW-T1-2.

a. Since I am not an expert Cobol programmer I cannot testify with authority as to what exactly the many programs in USPS-LR-H-21 do. However, I accept your representation that program ALB105C5 assigns shape-related mixed mail codes based on answers to IOCS question 19.

b. The analogy you refer to may look good in theory, but hardly in practice, for reasons explained below.

First, Degen's method provides nothing even resembling the use of shape specific mixed mail codes for NonMODS offices, which after all do incur a significant portion of all mail processing costs, and many of which do have shape specific operations that give rise to activity codes 5610, 5620 and 5700.

In MODS offices, the Degen cost pools are based on the MODS numbers IOCS clerks believed sampled employees were clocked into, whether or not they were actually working at the operations that those MODS numbers indicate. On the other hand, the question 19 answers used to assign shape-related mixed mail codes indicate where the IOCS clerks actually saw sampled employees working. As Table USPS-2 attached to this answer illustrates, the two concepts lead to very different results.

The table shows the volume variable mixed mail costs, at each MODS cost pool, that have been assigned activity codes 5610, 5620, 5700 and 5750 respectively. It does not include the not handling costs with corresponding activity codes, but the comments below apply equally well to shape related not handling costs. As the table shows, employees that IOCS clerks saw working at shape related operations must have

been clocked into many operations not related to those shapes. In other words, MODS employees do not always work at the operations they are clocked into.

For example, observations by IOCS clerks of employees handling mixed mail at letter specific operations correspond to $107.147 million in volume variable costs. There are five letter specific cost pools in Degen's MODS data: BCS, LSM, OCR, LD15 (remote coding) and MANL (manual letters). Those pools, however, account for only $63.108 million, or 58.9%, of the mixed mail 5610 costs. The remaining 41.1% were recorded while employees were clocked into a variety of operations not related specifically to letter mail processing.[1]

Altogether, 5610 mixed mail costs were recorded while employees were clocked into 34 different MODS cost pools. 31.35% of these costs were recorded while employees were clocked into platform or opening unit cost pools. As I understand the use of Question 19 answers, if an employee actually were seen working at an opening unit or on the platform, a 5610 activity code would not result. In other words, these employees must have been clocked into opening unit or platform operations while actually working at manual, mechanized or automated letter mail operations.

Similar conclusions apply for flats. The MODS cost pools include two (FSM and MANF) that are flat specific. But those cost pools account for only 61.71% of the 5620 mixed mail costs. Altogether, employees observed at flat specific operations handling mixed mail were clocked into 25 different MODS cost pools, most of which are not flat specific. Regarding parcels/IPP's, the MANP and MecParc pools are presumably for parcels only, and the Priority, Spbs Other and SpbsPrio pools can probably be considered mostly parcel and IPP related. But these pools together account for only 27.06% of the mixed mail costs with activity code 5700. Degen's pool by pool approach is therefore totally unsuitable for isolating the mixed mail costs that are parcel/IPP specific.

The table also shows that employees sometimes were clocked into letter or flat specific operations while actually working elsewhere. For example, $1.427 million mixed mail costs with activity code 5750 (mixed all shapes) appear in the FSM cost pool. This presumably represents employees whom the IOCS clerks thought were

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[1] It is possible that the $2.618 million in 5610 mixed mail costs at the 1CancMPP cost pool were recorded at letter specific canceling operations. But since this cost pool also includes cancellation of flats and parcels, Degen's approach leaves no room for distinguishing mixed mail or not handling costs on the basis of shape. The same applies to the $6.256 million in 5610 mixed mail costs recorded at the LD41, LD42 and LD43 cost pools which represent automated, mechanized and manual sorting at stations and branches of MODS offices. These operations may have separate components handling respectively letters, flats and IPP's/parcels, but Degen's approach does not allow use of these distinctions.

clocked into an FSM operation. But if those employees actually were working at FSM operations, then mixed mail code 5620 should have resulted, rather than 5750.

While Table USPS-2 focuses on volume variable costs, the picture is even worse if one considers accrued costs. Only 54.53% of accrued 5610 mixed mail costs were recorded while employees were clocked into letter specific operations, even though the 5610 code indicates that all of these observed employees actually were working at letter specific operations.

Finally, while I have focused on shape specific mixed mail costs, discrepancies of the type described above have even graver consequences with regard to shape specific not handling costs. The not handling costs with activity codes 5610, 5620 and 5700 respectively are tabulated by MODS cost pool in the last three columns of Table A-4 in Appendix A of my testimony. For example, while mixed mail related 5610 (letter specific) costs are "only" $107.147 million, the corresponding not handling costs are $437.47 million. And of the latter, only 72.7% were recorded while the observed employees were clocked into letter specific cost pools.

c. Confirmed, subject to the same caveats as in part a.

d. While it is conceivable that the answers to question 19 could be utilized more efficiently than with the approach described in my testimony, Degen's pool by pool approach is not the answer.

As shown in my answer to part b above, the notion that one can accurately distinguish mixed mail and not handling costs specific to letters, flats and parcels/IPP's by means of Degen's pool by pool approach is an illusion which the Postal Service should put aside, the sooner the better. Distinguishing between cost pools does not enable one to isolate, for example, the mixed mail costs at letter operations from other mixed mail costs, simply because employees often work at cost pools other than those they are clocked into. I see no reason to believe that attempts at an even finer differentiation between types of mixed mail costs via the pool by pool approach would be any less misleading.

Furthermore, let us assume that the problems I have described in part b above were somehow resolved. In other words, assume that (1) employees in MODS offices were always clocked into the operations they actually work at; and (2) Degen's cost pools scheme really did allow a separation of mixed mail and not handling costs that are respectively letter specific, flat specific and parcel/IPP specific. Even in this very hypothetical situation, it is not obvious that any gain in cost distribution accuracy would be achieved by separate distributions of mixed mail and not handling costs incurred at automated, mechanized and manual operations.

Take flats as an example. A separate distribution of mixed mail and not handling costs at the FSM and MANF (manual flats) cost pools would make sense if the two pools were totally separate, i.e. if costs incurred in one pool were not related to costs incurred in the other. In reality, the two are highly interrelated. Most flats can be processed at either FSM or MANF operations. Decisions as to where they really will be sorted are made by facility managers based on considerations such as equipment availability, scheduling needs, etc. As explained by witness Moden at page 21 of his testimony, staffing of these operations is also highly interrelated. According to Moden:

> "Manual cases become the method-of-last-resort, especially late in the evening as rejects from automated operations appear in quantity. To meet service commitments, manual cases must be staffed to handle these late surges."

Moden's comments may apply even more to letters than to flats. In any event, they indicate that staffing of manual sorting operations must also take into account the needs of the mail that normally is processed in automated or mechanized operations. In other words, costs at manual, mechanized and automated operations are interrelated. In order to move towards a more accurate costing system, the Postal Service should conduct an in-depth analysis of this dynamic interaction between automated, mechanized and manual sorting operations and how facility managers actually schedule employees at these operations. A costing system based on the results of such an analysis would certainly be far more reliable than one based on Degen's numerous unverified and sometimes clearly erroneous assumptions.

Finally, even if one could somehow achieve a perfectly accurate distribution of all shape specific mixed mail costs, most mixed mail costs are of the "mixed all shapes" variety and have activity code 5750. These costs are incurred mostly at allied operations, i.e. platforms and opening units. As discussed in my answer to USPS/TW-T1-1, allied operations essentially serve the shape specific sorting operations by performing various preparatory steps prior to sorting and steps such as pouching and dispatching the mail after it has been sorted.

Given these interrelationships, an accurate costing system would need to determine which portion of the allied operation costs are spent serving each type of shape specific sorting operation. In other words, one would need to address questions such as: which portion of the costs at an allied operation is spent preparing mail for BCS sorting, FSM sorting, etc.? It would also require a full study of the cost consequences when, for example, employees clock into an opening unit while waiting for a specific assignment elsewhere, or are sent back to an allied operation during a temporary lull in activity, etc.

Degen's approach essentially denies the existence of all these issues. Rather than analyze the interrelationships between allied operation costs and sorting operation costs he simply assumes that all mixed mail and not handling costs at allied operations (including most 5750 costs) are causally related only to the direct costs at the same operations (cost pools). He does so even though most of the direct costs at these allied operations appear to be there only because employees frequently are clocked into one operation while working elsewhere.

This in fact may be the most important difference between Degen's approach and mine. Degen assumes away all interrelationships between costs at allied operations and those at the various sorting operations, by treating each cost pool as a completely independent entity unrelated to other cost pools. My approach recognizes both that these cost interrelationships exist and that woefully little is really known about them, due to the lack of any meaningful USPS study of these issues. I have therefore chosen a conservative approach that simply assumes, given the lack of more specific information, that the 5750 costs are incurred proportionately to all other mail processing costs.

Table USPS-2: MODS Volume Variable Mixed Mail Costs Per Shape Code And Cost Pool ($1,000's)				
Cost Pool:	5610	5620	5700	5750
Bcs/	21,600	0	0	1,535
Express	21	25	29	1,351
Fsm/	713	14,840	237	1,427
Lsm/	8,006	73	66	472
Manf	481	13,238	0	1,486
Manl	13,075	1,128	91	2,887
Manp	0	47	773	821
Mecparc	0	0	303	240
Ocr/	5,412	0	0	490
Priority	75	4	1,595	5,189
Spbs Oth	61	46	395	4,944
Spbsprio	111	43	435	3,138
Busreply	49	0	0	620
Intl	866	381	618	4,888
LD15	15,016	0	0	7,638
LD41	437	0	0	39
LD42	26	37	0	50
LD43	5,793	2,256	1,793	10,851
LD44	223	74	79	592
LD48 Exp	0	0	0	43
LD48 Oth	90	47	28	505
LD48_Ssv	9	19	8	119
LD49	44	0	0	2,259
LD79	0	0	0	1,082
Mailgram	0	0	0	0
Registry	0	0	9	1,117
Rewrap	113	0	0	401
1Bulk Pr	63	0	35	671
1Cancmpp	2,618	432	35	9,984
1Eeqmt	60	0	130	1,480
1Misc	919	379	0	3,372
1Opbulk	3,715	2,403	621	13,189
1Oppref	10,212	3,298	1,289	35,470
1Platfrm	4,364	2,540	2,265	101,996
1Pouchng	12,000	3,887	803	29,810
1Sacks_H	496	218	559	12,608
1Sacks_M	119	0	555	5,573
1Scan	155	5	148	8,421
1Support	205	83	39	699
LD48_Adm	0	0	0	0
Total	107,147	45,503	12,939	277,458
At Shape Specific Pool:	63,108	28,078	3,502	N.A.
Percent:	58.90%	61.71%	27.06%	N.A.

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USPS/TW-T1-3. Do you believe that all mixed-mail in an operation is likely to have the same subclass distribution regardless of the item or container information recorded in IOCS question 21? If so, please reconcile your answer with witness Cohen's Table 4 (MPA-T-2, p. 24). If not, why do you propose ignoring the question 21 data in your testimony?

USPS/TW-T1-3. No.

Pages 12-25 of my testimony explain why I concluded that the elaborate and costly mixed mail scheme the Postal Service introduced some years ago simply will not work. Its perhaps most serious flaw is the complete failure to collect any subclass information for mixed mail containers, which represent the largest portion of mixed mail costs. I also show, in that part of my testimony, why implementing this approach within a large number of individual pools actually increases its inherent unreliability by ignoring many important cross-pool cost relationships.

Given the problems inherent in the current approach, use of it within many different pools only creates an illusion of accuracy, when in fact there are not enough data available to distribute mixed mail and not handling costs to subclasses reliably. In this situation, it is better to use a more conservative approach that relies on fewer unwarranted assumptions and is closer to the traditional method. That, after all, is what both the Postal Service and the Commission concluded in R94-1, when the same type of item/container data was already available.

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USPS/TW-T1-4. On page 11 of your testimony, you claim that there are "severe distortions" involved in distributing not-handling costs as a group, by cost pool. As an example, you offer the example of not handling costs migrated from window service to FSM.

a. Please refer to spreadsheet TW-19.xls, USPS-LR-H-260. Please confirm that tallies with window service activity codes are 0.23% of costs in the FSM pool. If you do not confirm, please explain.

b. Is it your testimony that distributing 0.23% of FSM cost pool costs per witness Degen's methodology will lead to "severe distortions" of the cost distribution? Please explain.

USPS/TW-T1-4.

a. Confirmed.

b. The window service related not handling costs misclassified as FSM costs under Degen's approach are $1.552 million, volume variable. Distributing these costs within the FSM cost pool to mail subclasses that generally do not use window services, rather than treating them as window service costs, is already a distortion of the true cost relationships. Furthermore, it is a totally unnecessary distortion, since the Postal Service already has at its disposal more accurate methods for distributing various types of window service costs.

Whether this by itself is a severe distortion obviously depends on one's perspective. In any case, my testimony shows that distributing all not handling costs, which now are over 40% of all clerk and mailhandler costs, with no consideration of the nature of the different types of not handling, relying instead exclusively on the cost pools that employees happened to be clocked into, does add up to a very severe distortion of the true cost relationships within segment 3.

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USPS/TW-T1-5. Please refer to Table 4-1, Exhibit 4, TW-T-1.

a. Please confirm that Table 4-1 indicates that IOCS data collectors obtained a top piece for 976,410/1,002,564 = 97.4% of non-empty items subject to the Top Piece Rule (weighed by cost). If you do not confirm, please explain.

b. Is it your testimony that the 97.4% of eligible items to which the Top Piece Rule was successfully applied are not representative of all items subject to the Top Piece Rule in any significant way? Please explain fully.

USPS/TW-T1-5.

a. Confirmed, although it should be noted that the $976.410 million direct costs for bundles, letter trays and flat trays consist both of costs of direct items with identical pieces, and of mixed mail items where the subclass was determined by application of the top piece rule. It is not known which portion of the $976.410 million falls into each category, though it is possible that this could be determined from the IOCS data.

b. Obviously, since 97.4% is much more than the remaining 2.6%, a profile of all top-piece-rule items would be more like the 97.4% than the 2.6%. That, however, does not mean that the 2.6% (or $26.154 million, volume variable) are similar to the 97.4%. In my testimony I have given some reasons why they may in fact be rather different from the 97.4%.

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USPS/TW-T1-6. Please see Table 4-1, Exhibit 4, TW-T-1.

a. Please confirm that Table 4-1 indicates that IOCS data collectors were able to obtain subclass information for the contents of (55,139+41,537)/137,256 = 70.4% of non-empty items not subject to the top piece rule (weighted by cost). If you do not confirm, please explain.

b. Please confirm that Table 4-1 indicates that IOCS data collectors were able to obtain subclass information for (1,031,549+41,537)/1,139,820 = 94.1% of all non-empty single items (weighted by cost). If you do not confirm, please explain.

USPS/TW-T1-6.

a. Confirmed.

b. Confirmed.

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USPS/TW-T1-7. Please see Exhibit 5, TW-T-1. Please disaggregate Tables 5-1, 5-2 and 5-3 by item type, and please also provide the resulting tables in electronic spreadsheet format.

USPS/TW-T1-7. Tables similar to Tables 5-1, 5-2 and 5-3 in my testimony, but representing individual non-top-piece rule item types, are shown on the following pages. Tables 5a through 5m represent individual item types in all offices. Tables 5-1a through 5-1m represent similar information for MODS offices, Tables 5-2a through 5-2m represent NonMODS offices and Tables 5-3a through 5-3m represent BMC's.

TW-LR-H-3, being filed today, includes a Quattro spreadsheet named items.wb1 and a corresponding Excel spreadsheet named items.xls. The spreadsheets contain pages named MODS, NonMODS and BMC. Each page contains the tables for its corresponding facility group.

Table 5a: Direct & Counted Item Costs In All Offices
(Volume Variable Costs - Con-Con's)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	76	36.38%	52	12.71%
Periodicals	0	0.00%	114	27.90%
Standard A	56	26.97%	242	59.38%
Standard B	76	36.23%	(0)	-0.00%
Priority	0	0.00%	0	0.00%
Express	0	0.00%	0	0.00%
Other	1	0.42%	(0)	-0.00%
Total	209	100.00%	407	100.00%

Table 5b: Direct & Counted Item Costs In All Offices
(Volume Variable Costs - Parcel Trays)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	627	47.60%	373	36.70%
Periodicals	39	2.99%	0	0.00%
Standard A	197	14.93%	397	39.06%
Standard B	206	15.65%	95	9.29%
Priority	131	9.92%	40	3.95%
Express	0	0.00%	0	0.00%
Other	117	8.91%	112	10.99%
Total	1,317	100.00%	1,017	100.00%

Table 5c: Direct & Counted Item Costs In All Offices
(Volume Variable Costs - Pallets)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	64	3.34%	522	5.97%
Periodicals	581	30.15%	2,730	31.21%
Standard A	449	23.33%	4,598	52.57%
Standard B	730	37.91%	643	7.35%
Priority	72	3.76%	146	1.66%
Express	0	0.00%	0	0.00%
Other	29	1.50%	107	1.23%
Total	1,926	100.00%	8,746	100.00%

Table 5d: Direct & Counted Item Costs In All Offices
(Volume Variable Costs - Other Items)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	305	28.70%	391	22.00%
Periodicals	4	0.38%	191	10.76%
Standard A	260	24.48%	922	51.93%
Standard B	89	8.42%	109	6.12%
Priority	269	25.28%	160	8.99%
Express	76	7.15%	(0)	-0.02%
Other	59	5.60%	4	0.21%
Total	1,063	100.00%	1,776	100.00%

Table 5e: Direct & Counted Item Costs In All Offices
(Volume Variable Costs - SCK-BL&O)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	0	0.00%	55	4.95%
Periodicals	0	0.00%	0	0.00%
Standard A	0	0.00%	0	0.00%
Standard B	55	2.16%	(0)	-0.00%
Priority	707	27.53%	142	12.78%
Express	1,787	69.59%	851	76.49%
Other	18	0.72%	64	5.78%
Total	2,569	100.00%	1,112	100.00%

Table 5f: Direct & Counted Item Costs In All Offices
(Volume Variable Costs - Green Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	1,923	71.47%	466	86.86%
Periodicals	192	7.12%	28	5.15%
Standard A	227	8.43%	4	0.75%
Standard B	120	4.46%	4	0.68%
Priority	190	7.06%	38	7.03%
Express	0	0.00%	0	0.00%
Other	39	1.46%	(2)	-0.46%
Total	2,691	100.00%	537	100.00%

Table 5g: Direct & Counted Item Costs In All Offices
(Volume Variable Costs - Or. & Yellow Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	447	5.31%	57	5.93%
Periodicals	86	1.02%	(0)	-0.00%
Standard A	97	1.16%	84	8.70%
Standard B	81	0.96%	5	0.56%
Priority	7,352	87.34%	818	84.35%
Express	96	1.14%	0	0.00%
Other	259	3.08%	4	0.45%
Total	8,417	100.00%	969	100.00%

Table 5h: Direct & Counted Item Costs In All Offices
(Volume Variable Costs - Brown Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	344	9.43%	149	1.68%
Periodicals	2,570	70.55%	6,381	72.08%
Standard A	611	16.76%	1,985	22.42%
Standard B	67	1.83%	144	1.62%
Priority	51	1.40%	0	0.00%
Express	0	0.00%	0	0.00%
Other	1	0.02%	194	2.19%
Total	3,643	100.00%	8,853	100.00%

Table 5i: Direct & Counted Item Costs In All Offices
(Volume Variable Costs - White #1 Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	755	11.65%	343	6.67%
Periodicals	98	1.51%	1,083	21.04%
Standard A	1,882	29.05%	3,070	59.62%
Standard B	2,985	46.09%	349	6.77%
Priority	93	1.44%	83	1.61%
Express	53	0.82%	(0)	-0.00%
Other	610	9.43%	221	4.29%
Total	6,476	100.00%	5,150	100.00%

Table 5j: Direct & Counted Item Costs In All Offices
(Volume Variable Costs - White #2 Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	809	14.63%	331	4.92%
Periodicals	861	15.58%	1,067	15.85%
Standard A	2,590	46.84%	4,641	68.95%
Standard B	570	10.30%	341	5.06%
Priority	237	4.30%	(0)	-0.00%
Express	0	0.00%	0	0.00%
Other	462	8.36%	352	5.23%
Total	5,529	100.00%	6,732	100.00%

Table 5k: Direct & Counted Item Costs In All Offices
(Volume Variable Costs - White #3 Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	403	13.12%	320	1.84%
Periodicals	423	13.78%	2,459	14.14%
Standard A	1,870	60.90%	13,607	78.23%
Standard B	161	5.24%	466	2.68%
Priority	0	0.00%	44	0.25%
Express	0	0.00%	0	0.00%
Other	213	6.95%	496	2.85%
Total	3,070	100.00%	17,393	100.00%

Table 5l: Direct & Counted Item Costs In All Offices
(Volume Variable Costs - Other Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	193	13.64%	86	4.17%
Periodicals	235	16.63%	355	17.25%
Standard A	306	21.65%	952	46.25%
Standard B	505	35.66%	397	19.31%
Priority	47	3.29%	122	5.94%
Express	60	4.27%	25	1.22%
Other	69	4.87%	120	5.86%
Total	1,415	100.00%	2,058	100.00%

Table 5m: Direct & Counted Item Costs In All Offices
(Volume Variable Costs - International Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	26	0.70%	(0)	0.00%
Periodicals	70	1.89%	0	-0.00%
Standard A	0	0.00%	0	0.00%
Standard B	2	0.07%	0	-0.00%
Priority	9	0.23%	0	-0.00%
Express	147	3.93%	(0)	0.01%
Other	3,477	93.18%	(132)	100.00%
Total	3,732	100.00%	(132)	100.00%

Table 5-1a: MODS Direct & Counted Item Costs
(Volume Variable Costs - Con-Con's)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	76	57.05%	52	15.25%
Periodicals	0	0.00%	114	33.48%
Standard A	56	42.29%	174	51.26%
Standard B	0	0.00%	0	0.00%
Priority	0	0.00%	0	0.00%
Express	0	0.00%	0	0.00%
Other	1	0.65%	(0)	-0.00%
Total	133	100.00%	339	100.00%

Table 5-1b: MODS Direct & Counted Item Costs
(Volume Variable Costs - Parcel Trays)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	627	52.10%	373	43.29%
Periodicals	39	3.28%	0	0.00%
Standard A	197	16.34%	321	37.24%
Standard B	92	7.67%	59	6.80%
Priority	131	10.86%	40	4.66%
Express	0	0.00%	0	0.00%
Other	117	9.75%	69	8.01%
Total	1,203	100.00%	862	100.00%

Table 5-1c: MODS Direct & Counted Item Costs
(Volume Variable Costs - Pallets)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	64	6.31%	522	10.80%
Periodicals	374	36.62%	1,842	38.11%
Standard A	225	22.01%	2,135	44.16%
Standard B	286	27.97%	190	3.92%
Priority	72	7.10%	146	3.01%
Express	0	0.00%	0	0.00%
Other	0	0.00%	0	0.00%
Total	1,021	100.00%	4,835	100.00%

Table 5-1d: MODS Direct & Counted Item Costs
(Volume Variable Costs - Other Items)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	146	26.99%	210	24.16%
Periodicals	4	0.75%	91	10.51%
Standard A	203	37.51%	419	48.36%
Standard B	49	9.03%	108	12.47%
Priority	32	5.87%	35	4.03%
Express	76	14.02%	(0)	-0.04%
Other	32	5.83%	5	0.52%
Total	542	100.00%	867	100.00%

Table 5-1e: MODS Direct & Counted Item Costs
(Volume Variable Costs - SCK-BL&O)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	0	0.00%	55	7.39%
Periodicals	0	0.00%	0	0.00%
Standard A	0	0.00%	0	0.00%
Standard B	55	2.67%	(0)	-0.00%
Priority	581	27.94%	66	8.90%
Express	1,424	68.50%	559	75.08%
Other	18	0.89%	64	8.63%
Total	2,079	100.00%	745	100.00%

Table 5-1f: MODS Direct & Counted Item Costs
(Volume Variable Costs - Green Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	1,842	78.07%	429	92.44%
Periodicals	192	8.12%	0	0.00%
Standard A	161	6.81%	(0)	-0.04%
Standard B	24	1.01%	(0)	-0.00%
Priority	102	4.34%	38	8.13%
Express	0	0.00%	0	0.00%
Other	39	1.66%	(2)	-0.54%
Total	2,360	100.00%	464	100.00%

Table 5-1g: MODS Direct & Counted Item Costs
(Volume Variable Costs - Or. & Yellow Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	360	4.85%	57	7.90%
Periodicals	0	0.00%	0	0.00%
Standard A	97	1.31%	0	0.01%
Standard B	37	0.50%	0	0.00%
Priority	6,620	89.24%	668	91.82%
Express	96	1.29%	0	0.00%
Other	207	2.80%	2	0.27%
Total	7,418	100.00%	728	100.00%

Table 5-1h: MODS Direct & Counted Item Costs
(Volume Variable Costs - Brown Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	344	10.80%	70	1.17%
Periodicals	2,109	66.28%	4,488	75.33%
Standard A	611	19.19%	1,245	20.89%
Standard B	67	2.10%	93	1.56%
Priority	51	1.60%	0	0.00%
Express	0	0.00%	0	0.00%
Other	1	0.03%	63	1.05%
Total	3,182	100.00%	5,959	100.00%

Table 5-1i: MODS Direct & Counted Item Costs
(Volume Variable Costs - White #1 Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	644	28.78%	300	11.82%
Periodicals	0	0.00%	421	16.61%
Standard A	747	33.41%	1,646	64.92%
Standard B	648	28.98%	87	3.43%
Priority	83	3.71%	83	3.26%
Express	53	2.38%	(0)	-0.00%
Other	61	2.73%	(1)	-0.04%
Total	2,236	100.00%	2,536	100.00%

Table 5-1j: MODS Direct & Counted Item Costs
(Volume Variable Costs - White #2 Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	756	23.78%	311	9.54%
Periodicals	591	18.58%	484	14.87%
Standard A	1,392	43.75%	2,322	71.29%
Standard B	132	4.15%	75	2.31%
Priority	220	6.91%	(0)	-0.01%
Express	0	0.00%	0	0.00%
Other	90	2.83%	65	2.00%
Total	3,181	100.00%	3,257	100.00%

Table 5-1k: MODS Direct & Counted Item Costs
(Volume Variable Costs - White #3 Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	304	18.79%	234	3.25%
Periodicals	309	19.07%	1,148	15.92%
Standard A	968	59.75%	5,680	78.80%
Standard B	35	2.17%	102	1.42%
Priority	0	0.00%	44	0.61%
Express	0	0.00%	0	0.00%
Other	4	0.22%	0	0.00%
Total	1,620	100.00%	7,208	100.00%

Table 5-1l: MODS Direct & Counted Item Costs
(Volume Variable Costs - Other Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	157	25.51%	49	7.26%
Periodicals	56	9.10%	49	7.23%
Standard A	193	31.38%	375	55.62%
Standard B	76	12.35%	(0)	-0.00%
Priority	47	7.57%	122	18.14%
Express	60	9.83%	25	3.74%
Other	26	4.26%	54	8.02%
Total	615	100.00%	674	100.00%

Table 5-1m: MODS Direct & Counted Item Costs
(Volume Variable Costs - International Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	26	0.88%	(0)	0.00%
Periodicals	70	2.34%	0	-0.00%
Standard A	0	0.00%	0	0.00%
Standard B	2	0.08%	0	-0.00%
Priority	9	0.29%	0	-0.00%
Express	147	4.88%	(0)	0.00%
Other	2,751	91.54%	(354)	100.00%
Total	3,006	100.00%	(354)	100.00%

Table 5-2a: NonMODS Direct & Counted Item Costs
(Volume Variable Costs - Con-Con's)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	0	0.00%	0	0.00%
Periodicals	0	0.00%	0	0.00%
Standard A	0	0.00%	68	100.00%
Standard B	76	100.00%	(0)	-0.00%
Priority	0	0.00%	0	0.00%
Express	0	0.00%	0	0.00%
Other	0	0.00%	0	0.00%
Total	76	100.00%	68	100.00%

Table 5-2b: NonMODS Direct & Counted Item Costs
(Volume Variable Costs - Parcel Trays)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	0	0.00%	0	0.00%
Periodicals	0	0.00%	0	0.00%
Standard A	0	0.00%	44	100.01%
Standard B	88	100.00%	(0)	-0.01%
Priority	0	0.00%	0	0.00%
Express	0	0.00%	0	0.00%
Other	0	0.00%	0	0.00%
Total	88	100.00%	44	100.00%

Table 5-2c: NonMODS Direct & Counted Item Costs
(Volume Variable Costs - Pallets)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	0	0.00%	0	0.00%
Periodicals	153	79.10%	193	23.48%
Standard A	0	0.00%	630	76.52%
Standard B	40	20.90%	0	0.00%
Priority	0	0.00%	0	0.00%
Express	0	0.00%	0	0.00%
Other	0	0.00%	0	0.00%
Total	194	100.00%	823	100.00%

Table 5-2d: NonMODS Direct & Counted Item Costs (Volume Variable Costs - Other Items)				
Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	159	39.37%	181	22.60%
Periodicals	0	0.00%	0	0.00%
Standard A	4	0.96%	496	61.84%
Standard B	2	0.48%	(0)	-0.00%
Priority	237	58.72%	125	15.55%
Express	0	0.00%	0	0.00%
Other	2	0.48%	(0)	-0.00%
Total	403	100.00%	802	100.00%

Table 5-2e: NonMODS Direct & Counted Item Costs (Volume Variable Costs - SCK-BL&O)				
Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	0	0.00%	0	0.00%
Periodicals	0	0.00%	0	0.00%
Standard A	0	0.00%	0	0.00%
Standard B	0	0.00%	0	0.00%
Priority	126	25.79%	76	20.65%
Express	364	74.21%	291	79.35%
Other	0	0.00%	0	0.00%
Total	490	100.00%	367	100.00%

Table 5-2f: NonMODS Direct & Counted Item Costs (Volume Variable Costs - Green Sacks)				
Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	81	29.62%	38	100.02%
Periodicals	0	0.00%	0	0.00%
Standard A	38	13.83%	(0)	-0.01%
Standard B	67	24.50%	(0)	-0.01%
Priority	88	32.05%	(0)	-0.00%
Express	0	0.00%	0	0.00%
Other	0	0.00%	0	0.00%
Total	274	100.00%	38	100.00%

Table 5-2g: NonMODS Direct & Counted Item Costs (Volume Variable Costs - Or. & Yellow Sacks)				
Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	87	9.62%	(0)	-0.00%
Periodicals	86	9.48%	(0)	-0.00%
Standard A	0	0.00%	84	36.12%
Standard B	0	0.00%	0	0.00%
Priority	732	80.90%	149	63.88%
Express	0	0.00%	0	0.00%
Other	0	0.00%	0	0.00%
Total	905	100.00%	233	100.00%

Table 5-2h: NonMODS Direct & Counted Item Costs (Volume Variable Costs - Brown Sacks)				
Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	0	0.00%	79	5.76%
Periodicals	275	100.00%	1,032	75.44%
Standard A	0	0.00%	257	18.80%
Standard B	0	0.00%	0	0.00%
Priority	0	0.00%	0	0.00%
Express	0	0.00%	0	0.00%
Other	0	0.00%	0	0.00%
Total	275	100.00%	1,368	100.00%

Table 5-2i: NonMODS Direct & Counted Item Costs (Volume Variable Costs - White #1 Sacks)				
Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	111	22.34%	(0)	-0.00%
Periodicals	5	1.03%	192	58.46%
Standard A	106	21.37%	137	41.55%
Standard B	265	53.19%	(0)	-0.00%
Priority	10	2.07%	0	0.00%
Express	0	0.00%	0	0.00%
Other	0	0.00%	(0)	-0.00%
Total	497	100.00%	329	100.00%

Table 5-2j: NonMODS Direct & Counted Item Costs (Volume Variable Costs - White #2 Sacks)				
Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	53	5.83%	0	0.00%
Periodicals	192	21.27%	(0)	-0.00%
Standard A	563	62.29%	292	100.00%
Standard B	76	8.38%	(0)	-0.00%
Priority	18	1.95%	(0)	-0.00%
Express	0	0.00%	0	0.00%
Other	3	0.29%	0	0.00%
Total	905	100.00%	292	100.00%

Table 5-2k: NonMODS Direct & Counted Item Costs (Volume Variable Costs - White #3 Sacks)				
Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	89	22.33%	(0)	-0.00%
Periodicals	0	0.00%	73	4.11%
Standard A	240	60.36%	1,707	95.89%
Standard B	69	17.31%	0	0.00%
Priority	0	0.00%	0	0.00%
Express	0	0.00%	0	0.00%
Other	0	0.00%	0	0.00%
Total	397	100.00%	1,780	100.00%

Table 5-2l: NonMODS Direct & Counted Item Costs (Volume Variable Costs - Other Sacks)				
Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	0	N.A.	65	27.02%
Periodicals	0	N.A.	87	36.11%
Standard A	0	N.A.	89	36.86%
Standard B	0	N.A.	0	0.00%
Priority	0	N.A.	0	0.00%
Express	0	N.A.	0	0.00%
Other	0	N.A.	0	0.00%
Total	0	N.A.	241	100.00%

Table 5-3b: BMC Direct & Counted Item Costs (Volume Variable Costs - Parcel Trays)				
Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	0	0.00%	0	0.00%
Periodicals	0	0.00%	0	0.00%
Standard A	0	0.00%	33	29.32%
Standard B	26	100.00%	36	32.25%
Priority	0	0.00%	0	0.00%
Express	0	0.00%	0	0.00%
Other	0	0.00%	43	38.43%
Total	26	100.00%	111	100.00%

Table 5-3c: BMC Direct & Counted Item Costs (Volume Variable Costs - Pallets)				
Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	0	0.00%	0	0.00%
Periodicals	54	7.53%	694	22.48%
Standard A	225	31.59%	1,833	59.37%
Standard B	404	56.80%	453	14.68%
Priority	0	0.00%	0	0.00%
Express	0	0.00%	0	0.00%
Other	29	4.07%	107	3.48%
Total	711	100.00%	3,088	100.00%

Table 5-3d: BMC Direct & Counted Item Costs (Volume Variable Costs - Other Items)				
Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	0	0.00%	0	0.00%
Periodicals	0	0.00%	100	93.59%
Standard A	53	45.11%	7	6.54%
Standard B	39	32.80%	1	0.56%
Priority	0	0.00%	0	0.00%
Express	0	0.00%	0	0.00%
Other	26	22.09%	(1)	-0.68%
Total	118	100.00%	107	100.00%

Table 5-3f: BMC Direct & Counted Item Costs (Volume Variable Costs - Green Sacks)				
Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	0	0.00%	0	0.00%
Periodicals	0	0.00%	28	77.87%
Standard A	28	49.53%	4	11.82%
Standard B	29	50.47%	4	10.31%
Priority	0	0.00%	0	0.00%
Express	0	0.00%	0	0.00%
Other	0	0.00%	0	0.00%
Total	57	100.00%	35	100.00%

Table 5-3g: BMC Direct & Counted Item Costs (Volume Variable Costs - Or. & Yellow Sacks)				
Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	0	0.00%	0	0.00%
Periodicals	0	0.00%	0	0.00%
Standard A	0	0.00%	0	0.00%
Standard B	43	45.39%	5	69.48%
Priority	0	0.00%	0	0.00%
Express	0	0.00%	0	0.00%
Other	52	54.61%	2	30.52%
Total	95	100.00%	8	100.00%

Table 5-3h: BMC Direct & Counted Item Costs
(Volume Variable Costs - Brown Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	0	0.00%	0	0.00%
Periodicals	186	100.00%	861	56.38%
Standard A	0	0.00%	483	31.66%
Standard B	0	0.00%	51	3.34%
Priority	0	0.00%	0	0.00%
Express	0	0.00%	0	0.00%
Other	0	0.00%	132	8.62%
Total	186	100.00%	1,527	100.00%

Table 5-3i: BMC Direct & Counted Item Costs
(Volume Variable Costs - White #1 Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	0	0.00%	44	1.91%
Periodicals	93	2.48%	470	20.57%
Standard A	1,028	27.47%	1,288	56.35%
Standard B	2,072	55.37%	262	11.46%
Priority	0	0.00%	0	0.00%
Express	0	0.00%	0	0.00%
Other	549	14.68%	222	9.71%
Total	3,743	100.00%	2,285	100.00%

Table 5-3j: BMC Direct & Counted Item Costs
(Volume Variable Costs - White #2 Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	0	0.00%	21	0.65%
Periodicals	78	5.40%	582	18.30%
Standard A	635	43.96%	2,028	63.70%
Standard B	362	25.06%	265	8.34%
Priority	0	0.00%	0	0.00%
Express	0	0.00%	0	0.00%
Other	369	25.59%	287	9.02%
Total	1,444	100.00%	3,184	100.00%

Table 5-3k: BMC Direct & Counted Item Costs
(Volume Variable Costs - White #3 Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	10	0.92%	86	1.03%
Periodicals	114	10.86%	1,238	14.73%
Standard A	662	62.88%	6,220	74.01%
Standard B	57	5.42%	364	4.33%
Priority	0	0.00%	0	0.00%
Express	0	0.00%	0	0.00%
Other	210	19.94%	496	5.90%
Total	1,053	100.00%	8,404	100.00%

Table 5-3l: BMC Direct & Counted Item Costs
(Volume Variable Costs - Other Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	36	4.52%	(28)	-2.45%
Periodicals	179	22.41%	219	19.18%
Standard A	113	14.17%	488	42.70%
Standard B	429	53.56%	397	34.76%
Priority	0	0.00%	0	0.00%
Express	0	0.00%	0	0.00%
Other	43	5.34%	66	5.81%
Total	800	100.00%	1,143	100.00%

Table 5-3m: BMC Direct & Counted Item Costs
(Volume Variable Costs - International Sacks)

Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	0	0.00%	0	0.00%
Periodicals	0	0.00%	0	0.00%
Standard A	0	0.00%	0	0.00%
Standard B	0	0.00%	0	0.00%
Priority	0	0.00%	0	0.00%
Express	0	0.00%	0	0.00%
Other	726	100.00%	223	100.00%
Total	726	100.00%	223	100.00%

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF UNITED STATES POSTAL SERVICE

USPS/TW-T1-8. In your testimony you state, "application of [witness Degen's] approach within each cost pool requires the further (unstated) assumption that mail that appears in containers at a given pool also appears as loose mail at the same cost pool" (TW-T-1, page 20, lines 26-28). Please provide a formal demonstration that this is necessary for the assumption stated by witness Degen, quoted at TW-T-1, page 20, lines 22-24. Please discuss any mathematical arguments you employ in this process.

USPS/TW-T1-8. Maybe it will become clearer if I quote a little more of Degen's interrogatory response to TW/USPS-T12-24, at Tr. 6528. The part of his response already quoted in my testimony stated that the assumption underlying his approach: to distribution of loose-flats-in-container costs was that: "the subclass distribution of direct tallies handling flat-shape pieces in the same cost pool is an unbiased estimate of the unknown subclass distribution of loose flats in mixed-mail containers." Degen's response at Tr. 6528 then continued:

> "The idea is that if the IOCS sample were hypothetically re-drawn, that some mail that we observe as directs would instead be 'observed' as part of mixed-mail (say, because a piece was observed in a container instead of in the hand of an employee sorting it into a case), and vice-versa. The direct mail distributions from the hypothetical two samples should differ only by random sampling error."

In other words, Degen appears to assume that any two pieces with equal probability of being observed as mixed mail also have equal probability of being observed, in a hypothetical re-drawn sample, as directs (i.e., in this context, as loose individually handled pieces). But at a given cost pool this clearly cannot hold if some pieces that appear as mixed mail have zero probability of being observed as loose pieces at that cost pool. Consequently, it is necessary, for Degen's assumption to hold, that mail that appears in containers (i.e. mixed) at a cost pool also appears as loose mail at the same cost pool, as I already stated in my testimony.

These somewhat abstract arguments should in any case not be allowed to obscure the very simple and basic problem that my testimony identifies with Degen's distribution of loose-mail-in-container costs. Handling of individual letters and flats generally occurs at operations dedicated to letter and flat processing respectively and does not occur at allied operations (opening units and platforms), which handle containers, bundles and other items but not individual pieces. But as the table at page 21 of my testimony shows, a very major portion of container handlings occurs at those allied operations. One example of the effect of Degen's approach is that he distributes the 53.3% of all loose-letters-in-container costs that occur at allied operations based upon only 6.97% of the direct letter handling costs. An accurate approach would have to

identify the operations where the loose-letters-in-containers observed at allied operations are subsequently handled as individual pieces, and distribute the container handling costs based on the letter handling costs at those operations. This is just one example of the numerous cross-pool cost relationships that Degen's pool-by-pool approach ignores.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF UNITED STATES POSTAL SERVICE

USPS/TW-T1-9. Please refer to your testimony at page 31.

a. Please confirm that your hypothetical assumes that not-handling costs in the manual operation do not vary with the volume of mail processed manually. If you do not confirm, please explain.

b. What cost distribution would result in your hypothetical if not-handling costs in the manual operation were 80% volume variable? Please explain.

USPS/TW-T1-9.

a. The only assumptions in my hypothetical are: (1) that not handling costs are distributed in proportion to direct costs; and (2) that after automation of the handling of one class, total not handling costs increased. My hypothetical makes no reference to not handling costs in "the manual operation." Nor does it assume that there is only one manual operation. However, to make my example a little closer to real life, perhaps I should have postulated that the increase in not handling costs after implementation of automation occurred mostly in certain "allied" operations common to both classes of mail.

b. My testimony offers this simple example as an illustration of what appears to have happened to Periodicals costs over the last ten years, under the traditional costing system which assumed 100% volume variability of all mail processing costs. Of course, according to Bradley's analysis, both not handling and other costs are considerably less than 100% volume variable. In any case, precisely what to make of the 80% not handling variability you postulate would appear to depend on additional assumptions not made in my example and not spelled out in your question.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF UNITED STATES POSTAL SERVICE

USPS/TW-T1-10. Please refer to your testimony at page 33, lines 7-17. What percentage of the costs for the 63 IOCS activity codes would be distributed in proportion to all mail processing costs in an office group under your proposed methodology? Please provide any supporting calculations in electronic spreadsheet format.

USPS/TW-T1-10. The answer to your question depends on how you define "office group". I distribute 6521 (breaks/personal needs) costs within CAG, so that if you define "office group" as consisting of a combination of CAG and MODS/NonMODS, or of the BMC's, then it can be said that I distribute 6521 costs proportionally to all "handling" mail processing costs within those office groups. I do the same with 6522 (clocking in/out) costs in MODS offices. The 6522 costs in BMC's and NonMODS offices are distributed proportionately to all other mail processing costs in those offices, similar to what witness Alexandrovich does in his workpapers.

For all other not handling costs, I either use distribution within basic function, or distribution keys different from "all mail processing costs," or both. A further description of the methods I use to distribute different types of not handling costs can be found at pages A-7 through A-11 in Appendix A of my testimony.

In summary, only 6521 and 6522 costs are distributed in direct proportion to all "handling" mail processing costs. Even those costs are distributed separately within CAG, except the 6522 costs at BMC's and NonMODS offices. The magnitude of these costs, relative to all other not handling costs, can be inferred from the spreadsheets already provided with my testimony, in TW-LR-H-1.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF UNITED STATES POSTAL SERVICE

USPS/TW-T1-11. Please refer to your testimony at page 33, line 26 to page 34, line 1. Please confirm that the FY1996 Postal Service methodology classifies costs for activity codes 6220 and 6230 as fully institutional. If you do not confirm, please explain.

USPS/TW-T1-11. It is my understanding that under the Postal Service's traditional costing approach not handling costs with activity codes 6220 (Special Delivery) and 6230 (Registry) were not attributed. It is also my understanding that those costs exist only in order to facilitate the provision of these special services and that they could therefore, if not attributed, be seen as "specific fixed" costs that form part of the total "incremental" costs of these services.

Under the Bradley/Degen approach, the average volume variability factors for 6220 and 6230 costs are, respectively, 36.67% and 38.07%, as can be inferred from Table A-1 in Appendix A of my testimony. My testimony provides an alternative way to distribute the costs identified as volume variable by Bradley and Degen. I concluded, and still believe, that as long as these costs are attributed at all they should be attributed to the services that cause them.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF UNITED STATES POSTAL SERVICE

USPS/TW-T1-12. Please refer to your testimony at page 39, lines 19-21, and USPS-LR-H-146, pages II-11 to II-12.

a. Please confirm that witness Degen's method distributes not-handling costs to special services in several "Function 1" cost pools. If you do not confirm, please explain.

b. Please explain fully how your response to subpart (a) affects your testimony.

USPS/TW-T1-12.

a. I assume that the intended reference is to page 36, rather than page 39, in my testimony. Confirmed with regard to cost pools 1EEQMT, 1MISC and 1SUPPORT.

b. My testimony regarding distribution of not handling costs remains that such costs should be distributed in accordance with the nature of each not handling activity, rather than according to the cost pool observed employees happened to be clocked into. In particular, not handling costs clearly related to special services should be attributed to those services regardless of cost pool.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF UNITED STATES POSTAL SERVICE

USPS/TW-T1-13. Please refer to your testimony at page 25, lines 1-2, where you claim that "Periodicals mail is certain to be overcharged under any possible use of the item/container data collected by the current IOCS."

a. Is it your testimony that it is impossible for Periodicals to be 'undercharged" with mixed-mail costs under some possible uses of the item and container data collected in IOCS? Please explain.

b. Consider a pallet consisting of shrink-wrapped brown sacks which is sampled in IOCS and results in a mixed-mail tally. Is it likely that such a pallet would have resulted in a direct Periodicals tally if its contents had been counted? Please explain.

c. Please confirm that Periodicals would receive a smaller share of the costs associated with this tally, and thus be "undercharged," under the mixed-mail distribution approach proposed by witness Degen, as compared with the situation described in subpart (b) in which the contents are counted and the tally is recorded as a direct Periodicals tally. If you cannot confirm, please explain fully.

USPS/TW-T1-13.

a. My testimony is that the use of IOCS item and container data proposed by witness Degen does unfairly overcharge Periodicals mail. Furthermore, because the bias of the current scheme for collecting mixed mail data is to over-represent Periodicals, I see no rational way to use this data that would "undercharge" Periodicals.

b. The likelihood that a pallet with shrink-wrapped brown sacks would contain Periodicals is probably about 72%, which is the percentage of direct brown sacks that contain Periodicals. As to the likelihood of a pallet containing shrink-wrapped sacks, and the likelihood of such sacks being brown, these questions cannot be addressed with the current IOCS data collection scheme, which effectively makes it impossible to record any information about sacks or trays on pallets.

   The likelihood of a pallet with shrink-wrapped sacks being counted by an IOCS data collector is extremely small, given that palletized shrink-wrapped sacks are one of only two examples of "extremely difficult to count" given in the IOCS manual.

c. It is meaningless to refer to an individual tally as over- or under-charging a particular class of mail.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF UNITED STATES POSTAL SERVICE

USPS/TW-T1-14. Please refer to your testimony at page 24, lines 16-20, where you claim that the costs associated with bundles on pallets would "be distributed based on the costs of all bundle handlings" if pallets were treated as containers. Please confirm that under the scenario you describe, witness Degen's methodology actually would distribute the costs associated with bundles on pallets based on the costs of bundle handlings in the same cost pool, except for the MODS 1Platfrm and BMC Platform cost pools. If you do not confirm, please explain fully. If you do confirm, please state how this affects your testimony.

USPS/TW-T1-14. Confirmed that your question conforms with my understanding of how Degen distributes bundles-in-container costs. There is no effect on my testimony.

DECLARATION

I, Halstein Stralberg, declare under penalty of perjury that the foregoing answers to interrogatories are true and correct, to the best of my knowledge, information and belief.

Date: January 26 , 1998

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Timothy L. Keegan

January 26, 1998